

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Village of Chelsea, Michigan	County Washtenaw
Audit Date February 29, 2004	Opinion Date June 4, 2004	Date Accountant Report Submitted To State: August 19, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address Suite 200, 350 South Main Street	City Ann Arbor	State MI	ZIP 48104-1923
Accountant Signature 			

Village of Chelsea, Michigan

Financial Report with Supplemental Information February 29, 2004

Village of Chelsea, Michigan

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Independent Auditor's Report

To the Members of the Village Council
Village of Chelsea, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Chelsea, Michigan as of and for the year ended February 29, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Chelsea, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Chelsea, Michigan as of February 29, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the Members of the Village Council
Village of Chelsea, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Chelsea, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 12, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of March 1, 2003.

Plante & Moran, PLLC

June 4, 2004

Village of Chelsea, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Village of Chelsea, Michigan's financial performance provides an overview of the Village's financial activities for the fiscal year ended February 29, 2004. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this management's discussion and analysis, the following represents the most significant financial highlights for the year ended February 29, 2004:

- The fund balance in the General Fund decreased from \$663,477 to \$380,684. This decrease resulted from budget projections over the past two years that have underestimated expenses and overestimated revenues.
- State-shared revenue, the Village's second largest General Fund revenue source, was reduced by the State of Michigan by \$32,520, representing a 6.5 percent decrease from the prior fiscal year. However, the \$468,094 received from the State of Michigan fell short of the budgeted projection by \$53,736. Over the past two years, the Village has lost nearly \$100,000 in state-shared revenue payments. The Village decreased its fund balance to accommodate these shortfalls.
- Major unbudgeted expenditures reflected in the financial statements include payout of retirement benefits totaling nearly \$90,000 to the former village manager, chief of police, electric superintendent, and a police officer; an automated meter reading program, which cost over \$500,000; and storm sewer projects, which cost nearly \$300,000.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

Village of Chelsea, Michigan

Management's Discussion and Analysis (Continued)

The Village as a Whole

The following table shows, in a condensed format, the net assets as of February 29, 2004:

TABLE I

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets	\$ 3,603,228	\$ 2,678,779	\$ 6,282,007
Noncurrent assets	<u>41,925,570</u>	<u>28,036,442</u>	<u>69,962,012</u>
Total assets	45,528,798	30,715,221	76,244,019
Liabilities			
Current liabilities	559,584	2,058,822	2,618,406
Long-term liabilities	<u>3,144,866</u>	<u>9,702,243</u>	<u>12,847,109</u>
Total liabilities	<u>3,704,450</u>	<u>11,761,065</u>	<u>15,465,515</u>
Net Assets			
Invested in capital assets - Net of related debt	39,620,832	16,949,418	56,570,250
Restricted	1,547,328	129,251	1,676,579
Unrestricted	<u>656,188</u>	<u>1,875,487</u>	<u>2,531,675</u>
Total net assets	<u>\$ 41,824,348</u>	<u>\$ 18,954,156</u>	<u>\$ 60,778,504</u>

The Village's combined net assets decreased from a year ago to \$60,778,504. This decrease was generally due to the depreciation of the Village's capital assets. For the fiscal year ended February 29, 2004, depreciation was approximately \$2.41 million.

Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations - ended the fiscal year with a balance of \$656,188 in the governmental activities.

Village of Chelsea, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the year ended February 29, 2004:

TABLE 2

	Governmental Activities	Business-type Activities	Total
Net Assets - Beginning of year (as adjusted)	\$ 43,900,137	\$ 19,246,999	\$ 63,147,136
Revenue			
Program revenue:			
Charges for services	749,614	7,283,784	8,033,398
Operating grants and contributions	346,664	595,182	941,846
General revenue:			
Property taxes	2,538,696	35,626	2,574,322
State-shared revenue	451,456	-	451,456
Unrestricted investment earnings	66,134	73,102	139,236
Transfers and other revenue	153,766	(153,766)	-
Total revenue	4,306,330	7,833,928	12,140,258
Program Expenses			
General government	1,018,494	-	1,018,494
Public safety	1,479,926	-	1,479,926
Public works	3,783,214	-	3,783,214
Recreation and culture	41,295	-	41,295
Interest on long-term debt	59,190	-	59,190
Water, sewer, and electric	-	8,126,771	8,126,771
Total program expenses	6,382,119	8,126,771	14,508,890
Change in Net Assets	(2,075,789)	(292,843)	(2,368,632)
Net Assets - End of year	<u>\$ 41,824,348</u>	<u>\$ 18,954,156</u>	<u>\$ 60,778,504</u>

Governmental Activities

As this is the first year of implementation for GASB No. 34, comparative information on a government-wide basis is not available for the year ended February 29, 2004. Comparative information will be presented in the management's discussion and analysis for the period ending June 30, 2005 (see subsequent events Note 15). In the current year, comparative information will be discussed for the fund financial statements only.

Village of Chelsea, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The Village's business-type activities consist of the Water, Sewer, and Electric Funds. The Village provides water to residents from five ground water wells and through a water treatment plant that provides iron removal and reverse osmosis softening. Sewage treatment is provided through a Village-owned and operated sewage treatment plant. The Village provided electrical service to the residents, purchased through agreements with the Michigan Public Power Association and Constellation Power Source.

The Village has implemented an automated meter reading system that is expected to result in labor savings. Already, replacement of defective and improperly installed meters is expected to return revenues to the Water, Sewer, and Electric Funds that will pay for this program over a short period of time. Although not required, the Village prepares an unofficial budget for its business-type activities, for internal use only, in order to evaluate various expenses incurred during the year. The new system described above was not budgeted and is largely responsible for significant budget overruns in all three business-type funds.

While the Electric Fund's revenues exceeded budget projections by \$182,000, expenditures, exclusive of the cost of purchasing electricity, exceeded the budget by \$165,000. The Electric Fund's working capital reduced by \$700,000 to \$764,000.

The Sewer Fund fell short of budgeted revenue projections by \$272,000 primarily due to lower than anticipated sewer connection fees. Expenditures exceeded budget by \$102,000. The Sewer Fund has seen its working capital reduce by \$176,000 to \$478,000.

The Water Fund fell short of budgeted revenue projections by \$419,000 primarily due to lower than anticipated connection fees. Revenue from water sold exceeded budget projections. Expenditures exceeded budget by \$846,000. The Water Fund has seen its working capital reduce by \$1,324,000 from \$701,000 to (\$623,000).

The Village must work to be more conservative on its revenue projections and more realistic in its expenditure projections. Throughout the year, revenues and expenditures must be monitored more closely and, if revenues are falling short of projections, appropriate cutbacks on expenditures must be made.

The staff is working with a technician from the Michigan Rural Water Association on a cost model to result in recommendations for water and sewer rate changes.

The Village's Funds

Our analysis of the Village's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Board creates funds to help manage money for specific purposes, as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for the current year include the General Fund, the Coliseum Drive Capital Project Fund, and the Major Roads Fund.

Village of Chelsea, Michigan

Management's Discussion and Analysis (Continued)

The General Fund pays for most of the Village's governmental services. The most significant are public safety and employee benefits and insurance, which incurred expenses of approximately \$1.8 million in the current fiscal year. This cost and the remaining \$1.2 million cost of the other General Fund departments (administrative services, village manager, City Council, public works, and clerk/treasurer) are funded by real and personal property taxes and other general revenue sources of the General Fund.

General Fund Budgetary Highlights

Property tax revenues in the General Fund fell short of budget by \$166,000. This is primarily due to the current practice of applying property tax refunds and tax increment finance district transfers against budgeted revenues rather than creating expenditure line items for these items.

Village departments in the General Fund overall exceeded budget projections by \$73,500, primarily due to the one-time payout of retirement benefits to three employees and operating transfers for street improvements.

Nearly \$66,000 in unbudgeted retirement benefit payouts were paid from the General Fund. Some of this cost was offset by delaying filling the positions of village manager, chief of police, and police officer.

An unbudgeted replacement of civil defense sirens resulted in a cost overrun in civil defense of over \$10,000.

Capital Asset and Debt Administration

As of February 29, 2004, the Village had a total of approximately \$69.1 million (net of depreciation) invested in a broad range of capital assets, including roads, buildings, police equipment, and water, sewer, and electric lines.

Debt service makes up approximately 1 percent of the total governmental expenditures. Bonded and other long-term obligations were reduced by approximately \$909,000.

More detailed information concerning capital assets and long-term debt can be found in Notes 5 and 7, respectively, in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The Village of Chelsea became a home-rule city on March 8, 2004. The adoption of the City Charter changed the fiscal year from March 1 to February 28/29 to July 1 to June 30. During the transition year, the State of Michigan Department of Treasury has authorized the City of Chelsea to conduct a 16-month audit for the year ending June 30, 2005. The City Council adopted a 16-month transitional budget for March 1, 2004 through June 30, 2005.

Village of Chelsea, Michigan

Management's Discussion and Analysis (Continued)

The assessed value for the Artic Coliseum property will be reduced by \$1.5 million, which will result in a loss of over \$14,000 in property tax revenue. However, property values in Chelsea continue to increase at a healthy pace. New development in the Village is expected to dramatically increase the Village's property tax base.

The Village has been dealing with on-going problems at its water treatment plant. The costs of the operation of this plant will have to be monitored carefully as the plant is made fully operational again. The water department is also addressing the problem of the concentrate from the water treatment plant and its effect on the wastewater treatment plant.

The wastewater treatment plant continues to address phosphorus limits on its discharge to the Middle Huron River watershed.

The Village intends to go forward with plans for a new city hall facility on Buchanan Street.

The bag fees for solid waste disposal were increased from \$2.00 per bag to \$2.50 per bag.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village's office.

Village of Chelsea, Michigan

Statement of Net Assets February 29, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 2,043,167	\$ 1,497,059	\$ 3,540,226	\$ 295,559
Receivables:				
Taxes	98,603	-	98,603	-
Customers	12,972	1,046,630	1,059,602	-
Special assessments (Note 4)	799,340	-	799,340	-
Other	28,309	-	28,309	219
Internal balances	428,887	(428,887)	-	-
Due from component units	5,000	-	5,000	-
Due from other governmental units	186,950	-	186,950	-
Inventories	-	548,427	548,427	-
Prepaid costs and other assets	-	15,550	15,550	-
Restricted assets (Note 8)	-	671,024	671,024	-
Investment in joint ventures (Note 11)	214,738	-	214,738	-
Capital assets - Net (Note 5):				
Nondepreciated	4,539,575	1,784,331	6,323,906	586,737
Depreciated	37,171,257	25,581,087	62,752,344	1,788,022
 Total assets	 45,528,798	 30,715,221	 76,244,019	 2,670,537
Liabilities				
Accounts payable	74,908	727,245	802,153	1,911
Accrued and other liabilities	177,676	512,744	690,420	265
Due to primary government	-	-	-	5,000
Noncurrent liabilities (Note 7):				
Due within one year	307,000	638,833	945,833	180,000
Due within one year - Payable from restricted assets (Note 8)	-	180,000	180,000	-
Due in more than one year	3,144,866	9,702,243	12,847,109	795,000
 Total liabilities	 3,704,450	 11,761,065	 15,465,515	 982,176
Net Assets				
Invested in capital assets - Net of related debt	39,620,832	16,949,418	56,570,250	1,399,759
Restricted:				
Streets and highways	970,346	-	970,346	-
Law enforcement	130,726	-	130,726	-
Solid waste activities	83,772	-	83,772	-
Debt service	330,928	129,251	460,179	-
Capital projects	31,556	-	31,556	-
Unrestricted	656,188	1,875,487	2,531,675	288,602
 Total net assets	 \$ 41,824,348	 \$ 18,954,156	 \$ 60,778,504	 \$ 1,688,361

Village of Chelsea, Michigan

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 1,018,494	\$ 292,477	\$ 1,954	\$ -
Public safety	1,479,926	3,500	31,269	-
Public works	3,783,214	453,637	313,441	-
Recreation and culture	41,295	-	-	-
Interest on long-term debt	59,190	-	-	-
Total governmental activities	6,382,119	749,614	346,664	-
Business-type activities:				
Water	1,513,605	1,089,369	317,855	-
Sewer	1,122,585	728,400	277,327	-
Electric	5,490,581	5,466,015	-	-
Total business-type activities	8,126,771	7,283,784	595,182	-
Total primary government	<u>\$ 14,508,890</u>	<u>\$ 8,033,398</u>	<u>\$ 941,846</u>	<u>\$ -</u>
Component units:				
Downtown Development Authority	\$ 200,378	\$ -	\$ -	\$ -
Economic Development Corporation	376	-	-	-
Total component units	<u>\$ 200,754</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Transfers				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year - As adjusted (Note 13)				
Net Assets - End of year				

Statement of Activities
Year Ended February 29, 2004

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (724,063)	\$ -	\$ (724,063)	\$ -
(1,445,157)	-	(1,445,157)	-
(3,016,136)	-	(3,016,136)	-
(41,295)	-	(41,295)	-
(59,190)	-	(59,190)	-
(5,285,841)	-	(5,285,841)	-
-	(106,381)	(106,381)	-
-	(116,858)	(116,858)	-
-	(24,566)	(24,566)	-
-	(247,805)	(247,805)	-
(5,285,841)	(247,805)	(5,533,646)	-
-	-	-	(200,378)
-	-	-	(376)
-	-	-	(200,754)
2,538,696	35,626	2,574,322	404,475
451,456	-	451,456	-
66,134	73,102	139,236	2,556
153,766	(153,766)	-	-
3,210,052	(45,038)	3,165,014	407,031
(2,075,789)	(292,843)	(2,368,632)	206,277
43,900,137	19,246,999	63,147,136	1,482,084
\$ 41,824,348	\$ 18,954,156	\$ 60,778,504	\$ 1,688,361

Village of Chelsea, Michigan

Governmental Funds Balance Sheet February 29, 2004

	Major Funds				Total Governmental Funds
	General	Coliseum Drive	Major Roads	Other Nonmajor Funds	
Assets					
Cash and investments (Note 3)	\$ 17,990	\$ 58,609	\$ 389,452	\$ 1,573,406	\$ 2,039,457
Receivables:					
Taxes	78,605	-	-	19,998	98,603
Customers	-	-	-	12,972	12,972
Special assessments (Note 4)	-	799,340	-	-	799,340
Other	24,157	-	-	-	24,157
Due from other funds (Note 6)	437,743	20,716	-	413,783	872,242
Due from component units	-	-	-	5,000	5,000
Due from other governmental units	76,182	-	48,298	11,571	136,051
	<u>\$ 634,677</u>	<u>\$ 878,665</u>	<u>\$ 437,750</u>	<u>\$ 2,036,730</u>	<u>\$ 3,987,822</u>
Total assets					
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 51,311	\$ 275	\$ -	\$ 15,253	\$ 66,839
Accrued and other liabilities	108,012	-	-	23,177	131,189
Due to other funds (Note 6)	94,670	47,494	51,202	226,021	419,387
Deferred revenue (Note 4)	-	799,340	-	-	799,340
	<u>253,993</u>	<u>847,109</u>	<u>51,202</u>	<u>264,451</u>	<u>1,416,755</u>
Total liabilities					
Fund Balances					
Reserved for:					
Streets and highways	-	-	386,548	583,798	970,346
Law enforcement	-	-	-	130,726	130,726
Solid waste maintenance	-	-	-	83,772	83,772
Debt service	-	-	-	330,928	330,928
Unreserved, reported in:					
General Fund	380,684	-	-	-	380,684
Special Revenue Funds	-	-	-	373,894	373,894
Capital Projects Funds	-	31,556	-	269,161	300,717
	<u>380,684</u>	<u>31,556</u>	<u>386,548</u>	<u>1,772,279</u>	<u>2,571,067</u>
Total fund balances					
Total liabilities and fund balances	<u>\$ 634,677</u>	<u>\$ 878,665</u>	<u>\$ 437,750</u>	<u>\$ 2,036,730</u>	<u>\$ 3,987,822</u>

Village of Chelsea, Michigan

Governmental Funds Reconciliation of Fund Balances of Governmental Funds to the Statement of Net Assets Year Ended February 29, 2004

Total Fund Balances of Governmental Funds	\$ 2,571,067
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	41,710,832
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Revenue sharing due from State not received within 60 days of year end is not available currently and is not recorded in the funds	50,899
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Special assessment receivables are expected to be collected over several years, and are not available to pay for current year expenditures	799,340
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Long-term liabilities are not due and payable in the current period and are not reported in the funds	(3,451,866)
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Investments in joint ventures are not financial resources and are not reported in the funds	214,738
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Interest amounts on long-term liabilities are not payable until due in the funds	(39,513)
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Internal Service Funds are included as part of governmental activities	<u>(31,149)</u>
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Net Assets of Governmental Activities	<u><u>\$ 41,824,348</u></u>
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Village of Chelsea, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended February 29, 2004

	Major Funds			Other	Total
	General	Coliseum Drive	Major Roads	Nonmajor Funds	Governmental Funds
Revenue					
Property taxes	\$ 1,981,421	\$ -	\$ 76	\$ 557,199	\$ 2,538,696
State sources	472,684	-	251,183	62,258	786,125
Local sources	-	-	-	29,835	29,835
License and permits	101,436	-	-	-	101,436
Charges for services	18,115	-	-	453,637	471,752
Fines and forfeitures	21,346	-	-	-	21,346
Interest and other	137,693	20,714	5,269	25,618	189,294
Total revenue	2,732,695	20,714	256,528	1,128,547	4,138,484
Expenditures					
General government	545,670	-	9,022	238,219	792,911
Public safety	1,244,217	-	-	-	1,244,217
Public works	422,832	-	678,515	982,215	2,083,562
Parks and recreation	39,482	-	-	-	39,482
Employee benefits and insurance	568,940	-	-	-	568,940
Debt service	-	87,686	-	125,149	212,835
Capital outlay	17,594	-	-	-	17,594
Total expenditures	2,838,735	87,686	687,537	1,345,583	4,959,541
Excess of Expenditures Over Revenue	(106,040)	(66,972)	(431,009)	(217,036)	(821,057)
Other Financing Sources (Uses)					
Operating transfers in	15,000	-	-	385,519	400,519
Operating transfers out	(191,753)	-	(25,000)	(30,000)	(246,753)
Total other financing sources (uses)	(176,753)	-	(25,000)	355,519	153,766
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(282,793)	(66,972)	(456,009)	138,483	(667,291)
Fund Balances - Beginning of year	663,477	98,528	842,557	1,633,796	3,238,358
Fund Balances - End of year	<u>\$ 380,684</u>	<u>\$ 31,556</u>	<u>\$ 386,548</u>	<u>\$ 1,772,279</u>	<u>\$ 2,571,067</u>

Village of Chelsea, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended February 29, 2004

Net Change in Fund Balances - Total Governmental Funds \$ (667,291)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation (1,606,993)

Revenue sharing is recorded in the statement of activities when the revenue is earned; it is not reported in the funds until collected or collectible within 60 days of year end (21,228)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end 28,104

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 105,000

Change in accumulated employee sick and vacation pay is recorded when earned in the statement of activities 41,196

Payment of landfill post-closure costs is an expenditure in the governmental funds, but not in the statement of activities (where it reduces the long-term liability) 60,000

Change in the equity interest in the Chelsea Area Construction Agency is not reported in the governmental funds 24,103

Change in the equity interest in the Chelsea Area Fire Authority is not reported in the governmental funds (11,280)

Accrued interest payable is recorded when due in governmental funds 23,645

Internal Service Funds are also included as governmental activities (51,045)

Change in Net Assets of Governmental Activities \$ (2,075,789)

Village of Chelsea, Michigan

Proprietary Funds Statement of Net Assets February 29, 2004

	Enterprise Funds - Major Funds				Internal Service Fund
	Water	Sewer	Electric	Total Major Funds	
Assets					
Current assets:					
Cash and cash equivalents (Note 3)	\$ 285,434	\$ 698,505	\$ 513,120	\$ 1,497,059	\$ 3,710
Receivables:					
Customers	135,620	96,096	814,914	1,046,630	-
Other	-	-	-	-	4,152
Due from other funds (Note 6)	-	-	-	-	21,032
Inventories	72,906	-	475,521	548,427	-
Prepaid costs and other assets	10,450	5,100	-	15,550	-
Total current assets	504,410	799,701	1,803,555	3,107,666	28,894
Long-term assets:					
Restricted assets (Note 8)	253,641	417,383	-	671,024	-
Capital assets (Note 5)	11,847,365	12,333,289	3,184,764	27,365,418	112,625
Total assets	12,605,416	13,550,373	4,988,319	31,144,108	141,519
Liabilities					
Current liabilities:					
Current portion of long-term liabilities	425,000	98,000	115,833	638,833	-
Current portion of long-term liabilities payable from restricted assets	-	180,000	-	180,000	-
Accounts payable	280,673	29,035	417,537	727,245	8,069
Accrued and other liabilities	421,392	13,856	77,496	512,744	6,974
Due to other funds (Note 6)	-	315	428,572	428,887	45,000
Total current liabilities	1,127,065	321,206	1,039,438	2,487,709	60,043
Long-term liabilities - Net of current portion and amount payable from restricted assets (Note 7)	8,581,702	935,869	184,672	9,702,243	-
Total liabilities	9,708,767	1,257,075	1,224,110	12,189,952	60,043
Net Assets					
Investment in capital assets - Net of related debt	2,871,983	11,153,289	2,924,146	16,949,418	112,625
Restricted for debt	-	129,251	-	129,251	-
Unrestricted	24,666	1,010,758	840,063	1,875,487	(31,149)
Total net assets	<u>\$ 2,896,649</u>	<u>\$ 12,293,298</u>	<u>\$ 3,764,209</u>	<u>\$ 18,954,156</u>	<u>\$ 81,476</u>

Village of Chelsea, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended February 29, 2004

	Enterprise Funds - Major Funds				Internal Service Fund
	Water	Sewer	Electric	Total Major Funds	
Operating Revenue					
Charges for services	\$ 1,064,423	\$ 692,036	\$ 5,391,512	\$ 7,147,971	\$ 234,374
Other	24,946	36,364	74,503	135,813	6,616
Total operating revenue	1,089,369	728,400	5,466,015	7,283,784	240,990
Operating Expenses					
Cost of electricity	-	-	3,950,729	3,950,729	-
Operation and maintenance	21,910	240,948	159,243	422,101	153,967
General and administrative	506,395	357,331	679,295	1,543,021	110,499
Professional/Contractor services	130,303	85,127	173,990	389,420	-
Payment in lieu of taxes	-	-	333,230	333,230	-
Depreciation and amortization	276,511	346,295	153,637	776,443	27,982
Other	332,808	20,866	24,154	377,828	175
Total operating expenses	1,267,927	1,050,567	5,474,278	7,792,772	292,623
Operating Loss	(178,558)	(322,167)	(8,263)	(508,988)	(51,633)
Nonoperating Revenue (Expense)					
Property taxes	-	35,626	-	35,626	-
Customer connection fees	317,855	277,327	-	595,182	-
Interest income	11,797	41,680	19,625	73,102	588
Interest expense	(245,678)	(72,018)	(16,303)	(333,999)	-
Total nonoperating revenue	83,974	282,615	3,322	369,911	588
Loss - Before transfers	(94,584)	(39,552)	(4,941)	(139,077)	(51,045)
Other Financing Sources (Uses)					
Operating transfers in	-	82,230	-	82,230	-
Operating transfers out	(14,700)	(29,000)	(192,296)	(235,996)	-
Total other financing sources (uses)	(14,700)	53,230	(192,296)	(153,766)	-
Change in Net Assets	(109,284)	13,678	(197,237)	(292,843)	(51,045)
Net Assets - Beginning of year - As adjusted (Note 13)	3,005,933	12,279,620	3,961,446	19,246,999	132,521
Net Assets - End of year	<u>\$ 2,896,649</u>	<u>\$ 12,293,298</u>	<u>\$ 3,764,209</u>	<u>\$ 18,954,156</u>	<u>\$ 81,476</u>

Village of Chelsea, Michigan

Proprietary Funds Statement of Cash Flows Year Ended February 29, 2004

	Enterprise Funds - Major Funds			Internal Service Fund
	Water	Sewer	Electric	
Cash Flows from Operating Activities				
Receipts from customers	\$ 1,071,123	\$ 674,407	\$ 5,334,983	\$ 245,377
Payments to suppliers	(526,367)	(399,326)	(4,621,656)	(145,814)
Payments to employees	(281,539)	(263,536)	(453,656)	(84,321)
Internal activity - Payments from (to) other funds	(56,375)	315	56,374	9,604
Net cash provided by operating activities	206,842	11,860	316,045	24,846
Cash Flows from Noncapital Financing Activities - Transfers to other funds	(14,700)	(29,000)	(192,296)	-
Cash Flows from Capital and Related Financing Activities				
Collection of customer assessments (principal and interest)	-	37,667	-	-
Collection of property taxes	-	35,626	-	-
Transfers from other funds	-	82,230	-	-
Connection fees	317,855	277,327	-	-
Purchase of capital assets	(944,585)	(228,755)	(500,837)	(21,724)
Proceeds from issuance of long-term debt	219,152	-	-	-
Principal and interest paid on capital debt	(635,678)	(302,018)	(95,342)	-
Net cash used in capital and related financing activities	(1,043,256)	(97,923)	(596,179)	(21,724)
Cash Flows from Investing Activities				
Interest received on investments	11,797	17,319	19,625	588
Sale of investment securities	-	13,093	-	-
Net cash provided by investing activities	11,797	30,412	19,625	588
Net Increase (Decrease) in Cash and Cash Equivalents	(839,317)	(84,651)	(452,805)	3,710
Cash and Cash Equivalents - Beginning of year	1,378,392	960,709	965,925	-
Cash and Cash Equivalents - End of year	<u>\$ 539,075</u>	<u>\$ 876,058</u>	<u>\$ 513,120</u>	<u>\$ 3,710</u>
Balance Sheet Classification of Cash and Cash Equivalents and Restricted Cash				
Cash and investments	\$ 285,434	\$ 698,505	\$ 513,120	\$ 3,710
Restricted investments (Note 3)	253,641	177,553	-	-
Total cash and cash equivalents	<u>\$ 539,075</u>	<u>\$ 876,058</u>	<u>\$ 513,120</u>	<u>\$ 3,710</u>

Village of Chelsea, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended February 29, 2004

	Enterprise Funds - Major Funds			Internal Service Fund
	Water	Sewer	Electric	
Reconciliation of Operating Loss to Net Cash from Operating Activities				
Operating loss	\$ (178,558)	\$ (322,167)	\$ (8,263)	\$ (51,633)
Adjustments to reconcile operating loss to net cash from operating activities:				
Depreciation and amortization	276,511	345,728	153,637	27,982
Changes in assets and liabilities:				
Customer receivables	(18,246)	(30,113)	(141,232)	4,387
Other assets	-	567	-	34,443
Due from other funds	-	-	56,375	(5,927)
Inventories	4,931	-	23,638	-
Accounts payable	(132,897)	13,981	(109,830)	2,528
Accrued and other liabilities	311,476	3,549	8,491	(2,465)
Due to other funds	(56,375)	315	333,229	15,531
Net cash provided by operating activities	<u>\$ 206,842</u>	<u>\$ 11,860</u>	<u>\$ 316,045</u>	<u>\$ 24,846</u>

Noncash Investing, Capital, and Financing Activities - There were no noncash investing, capital, or financing activities during the year ended February 29, 2004.

Village of Chelsea, Michigan

Component Units Statement of Net Assets February 29, 2004

	Downtown Development Authority	Economic Development Corporation	Totals
Assets			
Cash and investments (Note 3)	\$ 294,283	\$ 1,276	\$ 295,559
Receivables	219	-	219
Capital assets (Note 5)	2,374,759	-	2,374,759
Total assets	2,669,261	1,276	2,670,537
Liabilities			
Accounts payable	1,911	-	1,911
Accrued and other liabilities	265	-	265
Due to primary government	5,000	-	5,000
Noncurrent liabilities (Note 7):			
Due within one year	180,000	-	180,000
Due in more than one year	795,000	-	795,000
Total liabilities	982,176	-	982,176
Net Assets			
Investment in capital assets - Net of related debt	1,399,759	-	1,399,759
Unrestricted	287,326	1,276	288,602
Total net assets	<u>\$ 1,687,085</u>	<u>\$ 1,276</u>	<u>\$ 1,688,361</u>

Village of Chelsea, Michigan

	<u>Expenses</u>	<u>Program Revenues</u>
Downtown Development Authority - Community and economic development	\$ 200,378	\$ -
Economic Development Corporation - Community and economic development	<u>376</u>	<u>-</u>
Total governmental activities	<u>\$ 200,754</u>	<u>\$ -</u>

General revenues:

Property taxes

Interest

Total general revenues

Change in Net Assets

Net Assets - Beginning of year -
As adjusted (Note 13)

Net Assets - End of year

**Component Units
Statement of Activities
Year Ended February 29, 2004**

Net (Expense) Revenue and Changes in Net Assets		
Downtown Development Authority	Economic Development Corporation	Total
\$ (200,378)	\$ -	\$ (200,378)
-	(376)	(376)
(200,378)	(376)	(200,754)
404,475	-	404,475
2,548	8	2,556
407,023	8	407,031
206,645	(368)	206,277
1,480,440	1,644	1,482,084
<u>\$ 1,687,085</u>	<u>\$ 1,276</u>	<u>\$ 1,688,361</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the Village of Chelsea, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village:

Reporting Entity

The Village is governed by an elected seven-member council. The accompanying financial statements present the Village and its component units, entities for which the Village is considered to be financially accountable. Although blended component units are legally separate entities, in substance, they are part of the Village's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the Village (see discussion below for description).

Blended Component Units

The Village of Chelsea Building Authority is governed by a board that is appointed by the Village Council. Although it is legally separate from the Village, it is reported as if it were part of the primary government because its sole purpose is to finance and construct Village capital assets.

Discretely Presented Component Units

The following component units are reported within the component units column in the financial statements. They are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Village.

- a. The Downtown Development Authority (the "Authority") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The Authority's governing body, which consists of 13 individuals, is selected by the Village president. In addition, the Authority's budget is subject to approval by the Village Council.
- b. The Economic Development Corporation (the "Corporation") was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the Village so as to provide needed services and facilities of such enterprises to the residents of the Village. The Corporation's governing body, which consists of nine individuals, is selected by the Village president.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

General Fund - The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Coliseum Drive Fund - The Coliseum Drive Fund is a Capital Project Fund that was created to account for the construction of the Coliseum Drive, funded through a special assessment.

Major Roads Fund - The Major Roads Fund is used to account for the resources of state gas and weight tax revenues that are restricted for use on major roads.

The Village reports the following major proprietary funds:

Water Fund - The Water Fund accounts for the activities of the water distribution system, financed primarily by a user charge for the provision of those services.

Sewer Fund - The Sewer Fund accounts for the activities of the sewer collection system, financed primarily by a user charge for the provision of those services.

Electric Fund - The Electric Fund accounts for the activities of the electric distribution system, financed primarily by a user charge for the provision of those services.

Additionally, the Village reports the following fund types:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Note I - Summary of Significant Accounting Policies (Continued)

Capital Project Fund - The Capital Project Fund is used to account for the construction of a new Village office building. Revenues consist of interest income on investments and transfers from other funds for debt service.

Debt Service Funds - Debt Service Funds are used to account for the annual payment of principal, interest, and expenses in connection with certain long-term debt other than debt payable from the operations of an Enterprise Fund.

Internal Service Fund - The Internal Service Fund is used to account for major machinery and equipment purchases and maintenance provided to other departments of the Village on a cost reimbursement basis.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water, sewer, and electric functions and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Note I - Summary of Significant Accounting Policies (Continued)

The 2002 taxable valuation of the Village totaled approximately \$183,470,000, on which ad valorem taxes levied consisted of 9.8808 mills for the Village's general operating purposes, 1.5792 mills for street improvements, 0.9526 mills for solid waste operations, 0.5983 mills for sewer-related debt service, and 0.2000 mills for Building Authority debt service. The ad valorem taxes levied raised approximately \$1,639,000 for operations (which are net of various refunds and TIFA transfers paid during the year ended February 29, 2004 approximating \$174,000), approximately \$280,000 for street improvements, approximately \$175,000 for solid waste operations, approximately \$102,000 for Building Authority debt service, and approximately \$36,000 for sewer-related debt service. In addition, the General Fund received various payments in lieu of taxes during the year approximating \$343,000. These amounts are recognized in the respective General Fund, Special Revenue Fund, and Debt Service Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Inventories - Inventories are valued at cost, on a first-in, first-out basis.

Restricted Assets - The restricted assets in the Water and Sewer Funds consist of cash and cash equivalents, investments, and property tax and assessments receivable restricted to provide debt service principal and interest.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Governmental activities:

Roads and sidewalks	11 to 50 years
Buildings and improvements	50 years
Vehicles	3 to 15 years
Equipment	5 to 20 years

Business-type activities:

Land improvements	20 years
Infrastructure	10 to 50 years
Vehicles	5 to 15 years
Equipment	5 to 10 years
Office equipment	5 to 10 years
Building	20 to 50 years
Water tower	10 to 50 years
Special assessment district	50 years

Compensated Absences (Vacation and Sick Leave) - It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Comparative Data - Comparative data is not included in the Village's financial statements.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Fund Deficit - The Village has an accumulated fund deficit in one of its governmental funds, the Storm Water Utility Fund, of \$66,592. The Village does not have any significant projects or expenditures projected for the upcoming fiscal year; therefore, the fund deficit will be eliminated through the next fiscal year's revenues.

Note 3 - Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village has designated five banks for the deposit of local unit funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above.

Village of Chelsea, Michigan

Notes to Financial Statements February 29, 2004

Note 3 - Deposits and Investments (Continued)

At year end, deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government	Component Units
Cash and cash equivalents	\$ 2,043,167	\$ 1,497,059	\$ 3,540,226	\$ 295,559
Restricted assets - Cash	-	431,194	431,194	-
Restricted assets - Investments	-	33,067	33,067	-
Total	<u>\$ 2,043,167</u>	<u>\$ 1,961,320</u>	<u>\$ 4,004,487</u>	<u>\$ 295,559</u>

The breakdown of governmental activities as shown in the fund-based financial statements is as follows:

	Governmental Funds	Proprietary Fund - Internal Service Fund
Cash and cash equivalents	<u>\$ 2,039,457</u>	<u>\$ 3,710</u>

The breakdown between deposits and investments for the Village is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 3,970,720	\$ 295,559
Investments in U.S. government securities	33,067	-
Petty cash or cash on hand	700	-
Total	<u>\$ 4,004,487</u>	<u>\$ 295,559</u>

The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$4,050,774. Of that amount, \$500,000 was covered by federal depository insurance and \$3,550,774 was uninsured and uncollateralized.

Note 3 - Deposits and Investments (Continued)

The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Village evaluates each financial institution with which it deposits Village funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

The Village's investments during the year consisted solely of U.S. government securities. There was \$33,067 invested in such funds at February 29, 2004. Investments are categorized to give an indication of the level of risk assumed by the Village. The Village's investments are categorized as a Risk Category 2, which would include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Village's name.

Component Units

The cash and investment of the Village's component units at February 29, 2004 consist of bank deposits of \$290,562, which were reflected in the accounts of the bank at the same amount. Of that amount, \$200,000 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

Note 4 - Receivables/Deferred Revenue

On the fund-based financial statements, governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the entire deferred revenue balance was comprised of special assessments, which are unavailable in the governmental funds. On the government-wide financial statements, since reporting is based on the full accrual basis of accounting, there is no deferred revenue.

Village of Chelsea, Michigan

Notes to Financial Statements February 29, 2004

Note 5 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

	Balance March 1, 2003	Additions	Disposals	Balance February 29, 2004
Governmental Activities				
Capital assets not being depreciated -				
Land	\$ 4,539,575	\$ -	\$ -	\$ 4,539,575
Capital assets being depreciated:				
Roads and sidewalks	49,703,632	-	-	49,703,632
Buildings and improvements	693,076	-	-	693,076
Vehicles	430,738	21,724	-	452,462
Equipment	1,272,445	-	-	1,272,445
Subtotal	52,099,891	21,724	-	52,121,615
Accumulated depreciation:				
Roads and sidewalks	11,928,455	1,503,495	-	13,431,950
Buildings and improvements	282,755	8,994	-	291,749
Vehicles	351,585	20,417	-	372,002
Equipment	752,589	102,068	-	854,657
Subtotal	13,315,384	1,634,974	-	14,950,358
Net capital assets being depreciated	38,784,507	(1,613,250)	-	37,171,257
Net capital assets	\$ 43,324,082	\$ (1,613,250)	\$ -	\$ 41,710,832

Village of Chelsea, Michigan

Notes to Financial Statements February 29, 2004

Note 5 - Capital Assets (Continued)

	Balance March 1, 2003	Additions	Disposals and Adjustments	Balance February 29, 2004
Business-type Activities				
Capital assets not being depreciated -				
Land	\$ 1,784,331	\$ -	\$ -	\$ 1,784,331
Capital assets being depreciated:				
Land improvements	45,500	-	-	45,500
Infrastructure	10,103,644	211,726	-	10,315,370
Vehicles	486,560	30,547	-	517,107
Equipment	11,107,791	1,163,785	-	12,271,576
Office equipment	91,863	-	-	91,863
Building	9,691,916	-	-	9,691,916
Water tower	510,306	-	-	510,306
Special assessment district	549,194	-	-	549,194
Subtotal	32,586,774	1,406,058	-	33,992,832
Accumulated depreciation:				
Land improvements	28,438	2,273	-	30,711
Infrastructure	3,385,912	238,157	-	3,624,069
Vehicles	296,655	38,085	-	334,740
Equipment	1,080,428	284,874	-	1,365,302
Office equipment	90,086	1,185	-	91,271
Building	2,601,906	199,016	-	2,800,922
Water tower	75,557	6,794	-	82,351
Special assessment district	76,887	5,492	-	82,379
Subtotal	7,635,869	775,876	-	8,411,745
Net capital assets being depreciated	24,950,905	630,182	-	25,581,087
Net capital assets	\$ 26,735,236	\$ 630,182	\$ -	\$ 27,365,418

Village of Chelsea, Michigan

Notes to Financial Statements February 29, 2004

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 9,834
Public safety	15,271
Public works	1,607,640
Recreation and culture	<u>2,229</u>

Total governmental activities	<u>\$ 1,634,974</u>
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Business-type activities:

Water	\$ 276,511
Sewer	345,728
Electric	<u>153,637</u>

Total business-type activities	<u>\$ 775,876</u>
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Capital asset activity of the Village's component units was as follows:

	Balance March 1, 2003	Additions	Disposals and Adjustments	Balance February 29, 2004
Component Units				
Capital assets not being depreciated -				
Land	\$ 586,737	\$ -	\$ -	\$ 586,737
Capital assets being depreciated:				
Land improvements	1,891,530	-	-	1,891,530
Equipment	<u>18,914</u>	<u>-</u>	<u>-</u>	<u>18,914</u>
Subtotal	1,910,444	-	-	1,910,444
Accumulated depreciation:				
Land improvements	40,059	75,661	-	115,720
Equipment	<u>4,864</u>	<u>1,838</u>	<u>-</u>	<u>6,702</u>
Subtotal	<u>44,923</u>	<u>77,499</u>	<u>-</u>	<u>122,422</u>
Net capital assets being depreciated	<u>1,865,521</u>	<u>(77,499)</u>	<u>-</u>	<u>1,788,022</u>
Net capital assets	<u>\$ 2,452,258</u>	<u>\$ (77,499)</u>	<u>\$ -</u>	<u>\$ 2,374,759</u>

Construction Commitments - The Village has no active construction projects at year end.

Village of Chelsea, Michigan

Notes to Financial Statements February 29, 2004

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Electric Fund	\$ 333,230
	Coliseum Drive Fund	47,494
	Other nonmajor governmental funds	<u>57,019</u>
	Total General Fund	437,743
Capital Project Fund - Coliseum Drive	General Fund	15,493
	Other nonmajor governmental funds	<u>5,223</u>
	Total Capital Project Fund - Coliseum Drive	20,716
Other governmental funds	General Fund	79,177
	Major Roads Fund	25,000
	Electric Fund	95,342
	Other nonmajor governmental funds	<u>214,264</u>
	Total other governmental funds	<u>413,783</u>
	Total governmental funds	872,242
Proprietary fund - Vehicle and Equipment Fund	Other nonmajor governmental funds	<u>21,032</u>
	Total	<u>\$ 893,274</u>

Due to/from Component Unit

Other nonmajor governmental funds	Downtown Development Authority	\$ 5,000
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Interfund balances represent routine and temporary cash flow assistance resulting from normal interfund activity until the amounts can be reimbursed between the funds.

Village of Chelsea, Michigan

Notes to Financial Statements February 29, 2004

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	Transfers Out						Total
	General Fund	Major Roads Fund	Water Fund	Sewer Fund	Electric Fund	Other Governmental Funds	
Transfers in:							
General Fund (1)	\$ -	\$ -	\$ -	\$ 15,000	\$ -	\$ -	\$ 15,000
Sewer Fund (2)	82,230	-	-	-	-	-	82,230
Other governmental funds (1, 3)	<u>109,523</u>	<u>25,000</u>	<u>14,700</u>	<u>14,000</u>	<u>192,296</u>	<u>30,000</u>	<u>385,519</u>
Total	<u>\$ 191,753</u>	<u>\$ 25,000</u>	<u>\$ 14,700</u>	<u>\$ 29,000</u>	<u>\$ 192,296</u>	<u>\$ 30,000</u>	<u>\$ 482,749</u>

- (1) Transfer for general operations
- (2) Transfer for debt service
- (3) Transfer for capital improvements and debt service on municipal building

Note 7 - Long-term Debt

The Village issues bonds to provide for the acquisition and construction of major capital assets. General obligation bonds are direct obligations and pledge the full faith and credit of the Village. Installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Village is obligated to provide these resources to cover the deficiency until other resources are received.

Village of Chelsea, Michigan

Notes to Financial Statements February 29, 2004

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Interest Rate	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
1994 Limited Tax G.O. Bonds							
Amount of issue - \$550,000	5.60%	\$35,000 -					
Maturing through 2011	6.20%	\$50,000	\$ 340,000	\$ -	\$ 35,000	\$ 305,000	\$ 35,000
2000 Special Assessment							
Limited Tax G.O. Bonds							
Amount of issue - \$905,000	4.60%	\$45,000 -					
Maturing through 2021	5.50%	\$50,000	860,000	-	45,000	815,000	50,000
2002 Limited Tax G.O. Bonds							
Amount of issue - \$995,000	2.65%	\$30,000 -					
Maturing through 2022	5.15%	\$80,000	995,000		25,000	970,000	30,000
Accumulated compensated absences			203,062	-	41,196	161,866	132,000
Landfill postclosure care costs			1,260,000	-	60,000	1,200,000	60,000
Total governmental activities			\$ 3,658,062	\$ -	\$ 206,196	\$ 3,451,866	\$ 307,000
Business-type Activities							
General obligation bonds:							
1993 Unlimited Tax G.O. Bonds							
Amount of issue - \$1,450,000	4.60%	\$150,000 -					
Maturing through 2008	4.90%	\$170,000	\$ 765,000	\$ -	\$ 135,000	\$ 630,000	\$ 150,000
1993 Limited Tax G.O. Bonds							
Amount of issue - \$750,000	4.60%	\$65,000 -					
Maturing through 2008	4.90%	\$75,000	345,000	-	65,000	280,000	70,000
1994 Special Assessment Bonds							
Amount of issue - \$510,000	5.90%	-					
Maturing through 2013	6.45%	\$30,000	300,000	-	30,000	270,000	30,000
Revenue bonds -							
1995 Water Supply System							
Revenue Bonds							
Amount of issue - \$550,000	6.00%	\$25,000 -					
Maturing through 2015	6.50%	\$50,000	425,000	-	25,000	400,000	25,000
2000 Michigan Drinking Water							
Revolving Fund Program,							
\$9,200,000 available to be							
drawn, of which \$8,961,230							
has been drawn down,		\$375,000 -					
maturing through 2023	2.50%	\$575,000	8,721,230	219,152	365,000	8,575,382	375,000
Installment purchase agreements							
Amount of issue - \$435,000		\$82,833 -					
Maturing through 2018	4.80%	\$90,976	339,657	-	79,039	260,618	82,833
Accumulated compensated absences			108,849	-	3,773	105,076	86,000
Total business-type activities			\$ 11,004,736	\$ 219,152	\$ 702,812	\$ 10,521,076	\$ 818,833

Village of Chelsea, Michigan

Notes to Financial Statements February 29, 2004

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 115,000	\$ 102,076	\$ 217,076	\$ 732,833	\$ 312,375	\$ 1,045,208
2006	120,000	96,963	216,963	741,809	285,890	1,027,699
2007	120,000	91,375	211,375	780,976	258,668	1,039,644
2008	130,000	85,503	215,503	705,000	229,500	934,500
2009	130,000	79,095	209,095	475,000	203,911	678,911
2010-2014	520,000	294,514	814,514	2,555,000	795,898	3,350,898
2015-2019	565,000	171,456	736,456	2,575,000	429,370	3,004,370
2020-2024	390,000	36,365	426,365	1,850,382	103,824	1,954,206
Total	<u>\$ 2,090,000</u>	<u>\$ 957,347</u>	<u>\$ 3,047,347</u>	<u>\$ 10,416,000</u>	<u>\$ 2,619,436</u>	<u>\$ 13,035,436</u>

In prior years, the Village defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts' assets and liabilities for the defeased bonds are not included in the general purpose financial statements. At February 29, 2004, \$955,000 of bonds outstanding are considered defeased.

Landfill Postclosure Care Costs - State and federal laws and regulations require the Village to perform some remediation to the landfill site and to place a final cover on the landfill, as it no longer has the capacity to accept solid waste. Additionally, the Village is required to perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. As of February 28, 1995, all costs of closure have been incurred. Future monitoring costs are estimated by the Village to approximate \$60,000 per year and the cost attributable to the remaining 20 years has been recorded as long-term debt. The Village currently maintains a letter of credit in the amount of \$380,000 in favor of the Michigan Department of Natural Resources to be used to fund monitoring and remediation costs if they are not completed by the Village. The Village does not anticipate that the State of Michigan will utilize these funds.

Village of Chelsea, Michigan

Notes to Financial Statements February 29, 2004

Note 7 - Long-term Debt (Continued)

Component Units - Long-term obligation activity for the component units can be summarized as follows:

	Interest Rate	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds:							
1991 Downtown Development Limited							
Tax G.O. Bonds							
Amount of issue - \$995,000							
Maturing through 2005	5.00%	\$125,000	\$ 250,000	\$ -	\$ 125,000	\$ 125,000	\$ 125,000
2000 Downtown Development Limited							
Tax G.O. Bonds							
Amount of issue - \$995,000							
Maturing through 2011	4.90% - 5.20%	\$50,000 - \$150,000	900,000	-	50,000	850,000	55,000
Total component units			\$ 1,150,000	\$ -	\$ 175,000	\$ 975,000	\$ 180,000

Annual debt service requirements to maturity for the above component unit bond and note obligations are as follows:

	Principal	Interest	Total
2005	\$ 180,000	\$ 44,883	\$ 224,883
2006	115,000	37,564	152,564
2007	120,000	31,718	151,718
2008	130,000	25,435	155,435
2009	135,000	1,870	136,870
2010-2011	295,000	15,434	310,434
Total	\$ 975,000	\$ 156,904	\$ 1,131,904

No Commitment Debt - Excluded from the Village's financial statements are bonds issued by the Economic Development Corporation, a component unit of the Village of Chelsea, Michigan. The amount of bonds outstanding at February 29, 2004 totaled \$18,485,000.

Village of Chelsea, Michigan

Notes to Financial Statements February 29, 2004

Note 7 - Long-term Debt (Continued)

The Corporation is organized pursuant to State of Michigan Act. No. 338 of 1974, as amended. The primary purpose of the Corporation is to encourage and assist commercial and industrial enterprises to locate and expand facilities and services to the Village of Chelsea, Michigan and its residents. This purpose is accomplished by the issuance of Limited Obligation Revenue Bonds by the Corporation. The Corporation issues Limited Obligation Revenue Bonds and, in effect, loans the bond proceeds to commercial and industrial enterprises to finance the cost of projects to be used by such enterprises. The bonds are sometimes, but not always, collateralized by a mortgage on the project or sale/leaseback documentation. In return, the benefited enterprise agrees to pay loan repayments or lease rental in amounts sufficient to pay debt service on the bonds.

The bonds issued by the Corporation are payable solely from the net revenue derived from the respective projects.

Note 8 - Restricted Assets

The balances of the restricted asset accounts in the business-type activities are as follows:

	Business-type Activities		
	Water	Sewer	Total
Cash and cash equivalents	\$ 253,641	\$ 177,553	\$ 431,194
Marketable securities	-	33,067	33,067
Assessments receivable	-	205,486	205,486
Property tax receivable	-	1,277	1,277
Total restricted assets	<u>\$ 253,641</u>	<u>\$ 417,383</u>	<u>\$ 671,024</u>

These assets are restricted for debt payments.

All of the restricted assets result from the issuance of debt or the receipt of contributed capital. Current liability payable from restricted assets consists of the current portion of bonds payable relating to the construction of the Freer Road Sanitary Sewer System in the amount of \$180,000.

Note 9 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for medical claims, and participates in the Michigan Municipal League Liability and Property Pool for claims relating to property loss, torts, errors and omissions, workers' compensation, and unemployment compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League Liability and Property Pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description - The Village participates in the Michigan Municipal Employees' Retirement System (MMERS), an agent multiple-employer defined benefit pension plan. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MMERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MMERS at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by resolution of the Village Council and negotiation with the Village's competitive bargaining units.

Annual Pension Costs - For the year ended February 29, 2004, the Village's annual pension cost of \$271,348 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age cost method. Significant actuarial assumptions used include: (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent to 8.66 percent per year, depending on age, attributable to seniority/merit, and (c) the assumption that benefits will increase 2.5 percent per year (annually) after retirement, for certain retirees. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is seven years.

Village of Chelsea, Michigan

Notes to Financial Statements February 29, 2004

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Three-year trend information is as follows:

	Fiscal Year Ended February		
	2004	2003	2002
Annual pension costs (APC)	\$ 271,348	\$ 232,515	\$ 204,380
Percentage of APC contributed	100%	100%	100%
	December 31		
	2002	2001	2000
Actuarial value of assets	\$ 3,967,472	\$ 3,784,943	\$ 3,505,304
Actuarial Accrued Liability (AAL)			
(entry age)	\$ 6,182,505	\$ 5,699,145	\$ 5,400,177
Unfunded AAL (UAAL)	\$ 2,215,033	\$ 1,914,202	\$ 1,894,873
Funded ratio	64%	66%	65%
Covered payroll	\$ 1,675,048	\$ 1,430,464	\$ 1,392,569
UAAL as a percentage of covered payroll	132%	134%	136%

Defined Contribution Pension Plan

The Village provides pension benefits to all of its full-time employees hired after September 9, 1997 and full-time employees hired prior to September 9, 1997 who elect to convert to this plan from the defined benefit pension plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by resolution of the Village Council and negotiation with the Village's competitive bargaining units, the Village contributes 7 percent of employees' gross earnings. Employees may contribute to the plan additional amounts on an after-tax basis. In accordance with these requirements, the Village contributed \$59,007 and employees contributed \$9,413 during the current year.

**Note 10 - Defined Benefit Pension Plan and Postretirement Benefits
(Continued)**

Postemployment Benefits

The Village provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts and Village Council resolution. Currently, nine retirees are eligible. The Village includes pre-Medicare retirees and their dependents in its insured health care plan, with a contribution required by the participant. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due; during the year, this amounted to approximately \$22,000.

Note 11 - Joint Ventures

The Village is a member of the Chelsea Area Fire Authority (the "Fire Authority"), which provides services to the residents of the Village of Chelsea, the Township of Lima, the Township of Lyndon, the Township of Sylvan, and the Township of Waterloo. The Fire Authority began operations in June 1999, and the participating communities provide annual funding for its operations. During the current year, the Village contributed approximately \$226,000 for its operations. The Village is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Chelsea Area Fire Authority can be obtained from the administrative offices at 200 West Middle, Chelsea, Michigan 48118.

The Village is also a member of the Chelsea Area Construction Agency (the "Agency"), which provides building, electrical, mechanical, and plumbing permits, along with other related services, to the residents of the Village of Chelsea, the Township of Dexter, the Township of Lima, the Township of Lyndon, the Township of Sylvan, and the Township of Sharon. The Agency began operations in March 2000 and is a self-funded operation. The Village is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Chelsea Area Construction Agency can be obtained from the administrative offices at 18027 Old U.S. 12, Suite 100, Chelsea, Michigan 48118.

Village of Chelsea, Michigan

Notes to Financial Statements February 29, 2004

Note 11 - Joint Ventures (Continued)

The investments in joint ventures are recorded in the statement of net assets as follows:

<u>Joint Venture</u>	<u>Amount</u>
Chelsea Area Fire Authority	\$ 104,670
Chelsea Area Construction Agency	<u>110,068</u>
Total	<u>\$ 214,738</u>

Note 12 - Accounting and Reporting Change

Effective March 1, 2003, the Village implemented the provisions of Governmental Accounting Standards Board Statement No. 34 (GASB 34), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, along with all related statements and interpretations. Changes to the Village's financial statements as a result of GASB Statement No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the Village's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities), prepared using full accrual accounting for all of the Village's activities, have been provided.
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets not previously accounted for by the Village, as well as assets totaling approximately \$4,111,000 previously reported in the General Fixed Assets Account Group. Capital assets at March 1, 2003, previously reported in the General Fixed Assets Account Group, have been adjusted by approximately \$39,213,000 to reflect the historical cost of the Village's capital assets at that date (including an adjustment for infrastructure assets of approximately \$37,775,000).
- The governmental activities column includes bonds, compensated absences, and other long-term obligations totaling approximately \$4,362,000 previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.
- The governmental funds now accrue a liability for compensated absences only to the extent that they come due for payment prior to year end.

Village of Chelsea, Michigan

Notes to Financial Statements February 29, 2004

Note 13 - Accounting Change

During the year, the Village and related component units changed their method of accounting for certain fixed assets. The Village had an inventory performed and also changed its capitalization threshold from \$500 to \$5,000. In addition, the Village made adjustments to the Village's Sewer Fund net assets and certain governmental funds' fund balances. Debt service related to certain bonds issued in prior years for sewer improvements had been accounted for in Debt Service Funds. These bonds are directly related to the Village's sewer system; therefore, the Village transferred the activity and assets from the Debt Service Funds to the Sewer Fund. Cumulative tax levies collected in excess of debt service payments are restricted within the Sewer Fund for future debt service. The accounting change had the following effect on the beginning net assets of the Village's governmental and business-type activities and component units:

	Governmental Activities	Business-type Activities			
		Water Fund	Sewer Fund	Electric Fund	Total
Net assets - February 28, 2003 - As previously reported	\$ 43,057,183	\$ 3,005,933	\$ 8,743,942	\$ 4,453,384	\$ 16,203,259
Sewer Improvement Debt Service Fund reclassification	(267,046)	-	267,046	-	267,046
Long-term debt reclassification	1,110,000	-	(1,110,000)	-	(1,110,000)
Adjustment for change in assets due to inventory and change in capitalization policy	-	-	4,378,632	(491,938)	3,886,694
Net assets - February 28, 2003 - As restated	<u>\$ 43,900,137</u>	<u>\$ 3,005,933</u>	<u>\$ 12,279,620</u>	<u>\$ 3,961,446</u>	<u>\$ 19,246,999</u>

Component Units

	Downtown Development Authority	Economic Development Authority	Total
Net assets - February 28, 2003 - As previously reported	\$ 1,566,371	\$ 1,644	\$ 1,568,015
Adjustment for change in assets due to inventory and change in capitalization policy	(85,931)	-	(85,931)
Net assets - February 28, 2003 - As restated	<u>\$ 1,480,440</u>	<u>\$ 1,644</u>	<u>\$ 1,482,084</u>

Note 14 - Contingencies

During 1998, the Village was contacted by the Michigan Department of Environmental Quality regarding possible groundwater contamination as a result of a closed municipal landfill. Financial responsibility, if any, for resulting damages will be shared with surrounding townships. The likelihood of loss cannot yet be determined; however, based on investigation by the Village's consultants, contamination of the groundwater was not apparent.

Note 15 - Subsequent Event

As a result of a public referendum, the Village of Chelsea has become the City of Chelsea as of March 8, 2004. As a result of the referendum and incorporation, the City of Chelsea may be entitled to a portion of assets currently held by Lima and Sylvan Townships. The City is addressing this matter with these townships. In connection with the change, the City's next fiscal year will be a 16-month period ending on June 30, 2005.

Required Supplemental Information

Village of Chelsea, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended February 29, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes:				
Real and personal property taxes	\$ 1,805,114	\$ 1,805,119	\$ 1,638,726	\$ (166,393)
Payments in lieu of taxes	333,230	333,230	342,695	9,465
Total property taxes	2,138,344	2,138,349	1,981,421	(156,928)
State sources:				
Revenue sharing	495,000	521,830	468,094	(53,736)
Liquor license fees	4,500	4,590	4,590	-
Total state sources	499,500	526,420	472,684	(53,736)
Licenses and permits:				
Building permits	30,000	30,015	45,306	15,291
Zoning changes	52,000	56,000	56,130	130
Total licenses and permits	82,000	86,015	101,436	15,421
Charges for services:				
Recycling	4,000	4,000	2,070	(1,930)
Other	12,809	15,809	16,045	236
Total charges for services	16,809	19,809	18,115	(1,694)
Fines and forfeitures	20,000	20,500	21,346	846
Interest	25,000	25,000	18,879	(6,121)
Other revenue:				
Reimbursement	30,000	64,765	79,005	14,240
Sale of property	-	25	24	(1)
Other	53,973	57,128	39,785	(17,343)
Total other revenue	83,973	121,918	118,814	(3,104)
Operating transfers in	15,000	15,000	15,000	-
Total revenue	<u>\$ 2,880,626</u>	<u>\$ 2,953,011</u>	<u>\$ 2,747,695</u>	<u>\$ (205,316)</u>

Village of Chelsea, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended February 29, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures				
General government:				
Village Council	\$ 12,500	\$ 17,500	\$ 14,165	\$ 3,335
Executive	229,500	245,750	254,983	(9,233)
Elections	12,500	4,700	5,376	(676)
Assessor	400	400	-	400
Attorney	45,000	42,000	54,031	(12,031)
Auditor	5,000	7,265	11,355	(4,090)
Treasurer	36,500	41,500	42,501	(1,001)
Printing and publishing	10,000	9,000	10,723	(1,723)
Public utilities	13,000	19,500	28,910	(9,410)
Building maintenance	13,000	12,000	14,742	(2,742)
Building rental	95,000	41,235	38,734	2,501
Professional services	30,000	29,500	33,153	(3,653)
Office equipment and communications services	9,700	9,500	9,847	(347)
Supplies	8,500	5,700	7,611	(1,911)
Other	83,536	94,871	19,539	75,332
Total general government	604,136	580,421	545,670	34,751
Public safety:				
Police	798,600	813,300	857,273	(43,973)
Fire	210,000	225,600	225,583	17
Civil defense	20,360	1,860	12,181	(10,321)
Planning and zoning	148,000	135,100	149,180	(14,080)
Total public safety	1,176,960	1,175,860	1,244,217	(68,357)
Public works:				
Department of Public Works	432,000	411,450	399,523	11,927
Recycling	17,000	20,000	23,309	(3,309)
Total public works	449,000	431,450	422,832	8,618
Parks and recreation	40,800	46,750	39,482	7,268

Village of Chelsea, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended February 29, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Employee benefits and insurance:				
Employee benefits:				
Social Security	\$ 110,000	\$ 106,000	\$ 110,539	\$ (4,539)
Health insurance	155,000	183,000	181,285	1,715
Life insurance	4,000	5,000	4,522	478
Retirement contribution	150,000	195,000	203,065	(8,065)
Other	6,000	5,500	5,807	(307)
Property insurance	40,000	43,000	43,001	(1)
Workers' compensation insurance	22,000	21,000	20,721	279
Total employee benefits and insurance	487,000	558,500	568,940	(10,440)
Capital outlay	15,500	15,500	17,594	(2,094)
Operating transfers out	148,530	148,530	191,753	(43,223)
Total expenditures	<u>\$ 2,921,926</u>	<u>\$ 2,957,011</u>	<u>\$ 3,030,488</u>	<u>\$ (73,477)</u>

Village of Chelsea, Michigan

Required Supplemental Information Budgetary Comparison Schedule - Special Revenue Fund Major Roads Fund Year Ended February 29, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenues				
Property taxes	\$ 280,000	\$ 280,100	\$ 76	\$ (280,024)
State sources	205,000	226,900	251,183	24,283
Interest and other	15,000	15,000	5,269	(9,731)
Operating transfers in	15,000	15,000	-	(15,000)
Total revenues	<u>\$ 515,000</u>	<u>\$ 537,000</u>	<u>\$ 256,528</u>	<u>\$ (280,472)</u>
Expenditures				
General government	\$ 4,240	\$ 7,740	\$ 9,022	\$ (1,282)
Public works	525,760	529,260	678,515	(149,255)
Operating transfers out	-	-	25,000	(25,000)
Total expenditures	<u>\$ 530,000</u>	<u>\$ 537,000</u>	<u>\$ 712,537</u>	<u>\$ (175,537)</u>

Village of Chelsea, Michigan

Note to Required Supplemental Information Year Ended February 29, 2004

Budgetary Information - The annual budgets are prepared by the Village manager and adopted by the Village Council; subsequent amendments are approved by the Village Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at February 29, 2004 is not known. During the current year, the budget was amended in a legally permissible manner.

The budgets have been prepared in accordance with generally accepted accounting principles for the General Fund and all Special Revenue Funds, with the exception that operating transfers have been included in the "revenue" and/or "expenditures" categories, rather than as "other financing sources (uses)."

The budgets have been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. Comparison of actual results of operations to the budgets of the General Fund and Major Roads Fund, as adopted by the Village Council, are included in the required supplemental information of the basic financial statements. A comparison of the actual results of operations to the nonmajor Special Revenue Funds budgets, as adopted by the Village, is available at the Village offices for inspection.

Excess of Expenditures Over Budgeted Amounts - The Village had the following significant expenditure budget overruns:

	Amended Budget	Actual	Variance
General Fund			
Police (1)	\$ 813,300	\$ 857,273	\$ (43,973)
Operating transfers out (2)	148,530	191,753	(43,223)
Major Roads Fund			
Public works (3)	529,260	678,515	(149,255)
Operating transfers out (4)	-	25,000	(25,000)

(1) Variance resulting from additional salaries and wages paid to retiring employees

(2) Variance resulting from additional transfers for street improvements

(3) Variance resulting from additional construction expenses related to road improvements

(4) Variance resulting from transfers for street improvements

Other Supplemental Information

Village of Chelsea, Michigan

	Special Revenue			
	Local Roads	Municipal Road Fund	Emergency 911	Drug Law Enforcement
Assets				
Cash and investments	\$ 22,131	\$ 566,890	\$ 89,449	\$ 41,277
Receivables:				
Taxes	-	10,090	-	-
Customers	-	-	-	-
Due from other funds	25,000	2,461	-	-
Due from other governmental units	11,551	-	-	-
Due from component units	-	-	-	-
Total assets	<u>\$ 58,682</u>	<u>\$ 579,441</u>	<u>\$ 89,449</u>	<u>\$ 41,277</u>
Liabilities and Fund Balances (Deficit)				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued and other liabilities	-	-	-	-
Due to other funds	<u>51,849</u>	<u>2,476</u>	<u>-</u>	<u>-</u>
Total liabilities	51,849	2,476	-	-
Fund Balances (Deficit)				
Reserved:				
Streets and highways	6,833	576,965	-	-
Law enforcement	-	-	89,449	41,277
Solid waste activities	-	-	-	-
Debt service	-	-	-	-
Unreserved and undesignated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances (deficit)	<u>6,833</u>	<u>576,965</u>	<u>89,449</u>	<u>41,277</u>
Total liabilities and fund balances (deficit)	<u>\$ 58,682</u>	<u>\$ 579,441</u>	<u>\$ 89,449</u>	<u>\$ 41,277</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
February 29, 2004**

Funds			Capital Project Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Capital Contingency	Solid Waste Facility	Storm Water Utility	Municipal Building	Building Authority	
\$ 145,144	\$ 12,030	\$ 8,894	\$ 269,411	\$ 418,180	\$ 1,573,406
-	2,891	-	-	7,017	19,998
-	12,972	-	-	-	12,972
290,342	94,264	-	-	1,716	413,783
-	20	-	-	-	11,571
5,000	-	-	-	-	5,000
\$ 440,486	\$ 122,177	\$ 8,894	\$ 269,411	\$ 426,913	\$ 2,036,730
\$ -	\$ 15,003	\$ -	\$ 250	\$ -	\$ 15,253
-	22,691	486	-	-	23,177
-	711	75,000	-	95,985	226,021
-	38,405	75,486	250	95,985	264,451
-	-	-	-	-	583,798
-	-	-	-	-	130,726
-	83,772	-	-	-	83,772
-	-	-	-	330,928	330,928
440,486	-	(66,592)	269,161	-	643,055
440,486	83,772	(66,592)	269,161	330,928	1,772,279
\$ 440,486	\$ 122,177	\$ 8,894	\$ 269,411	\$ 426,913	\$ 2,036,730

Village of Chelsea, Michigan

	Special Revenue			
	Local Roads	Municipal Road Fund	Emergency 911	Drug Law Enforcement
Revenue				
Property taxes	\$ -	\$ 280,209	\$ -	\$ -
State sources	62,258	-	-	-
Local sources	-	-	29,835	-
Charges for services	-	-	-	-
Interest and other	179	1,788	4,254	2,053
Total revenue	62,437	281,997	34,089	2,053
Expenditures				
General government	1,000	-	-	1,060
Public works:				
Street construction	136,447	-	-	-
Street routine maintenance	93,386	-	-	-
Traffic services	6,538	-	-	-
Winter maintenance	33,270	-	-	-
Operation and maintenance	-	-	6,754	-
Total public works	269,641	-	6,754	-
Debt service	-	-	-	-
Total expenditures	270,641	-	6,754	1,060
Excess of Revenue Over (Under) Expenditures	(208,204)	281,997	27,335	993
Other Financing Sources (Uses)				
Operating transfers in	123,223	-	-	-
Operating transfers out	-	(30,000)	-	-
Total other financing sources (uses)	123,223	(30,000)	-	-
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(84,981)	251,997	27,335	993
Fund Balances - Beginning of year	91,814	324,968	62,114	40,284
Fund Balances (Deficit) - End of year	<u>\$ 6,833</u>	<u>\$ 576,965</u>	<u>\$ 89,449</u>	<u>\$ 41,277</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended February 29, 2004

Funds			Capital Project Fund	Debt Service Funds	
Capital Contingency	Solid Waste Facility	Storm Water Utility	Municipal Building	Building Authority	Total Nonmajor Governmental Funds
\$ -	\$ 175,030	\$ -	\$ -	\$ 101,960	\$ 557,199
-	-	-	-	-	62,258
-	-	-	-	-	29,835
-	341,894	111,743	-	-	453,637
<u>4,221</u>	<u>6,734</u>	<u>1,899</u>	<u>1,862</u>	<u>2,628</u>	<u>25,618</u>
4,221	523,658	113,642	1,862	104,588	1,128,547
44	231,315	-	4,800	-	238,219
-	-	-	-	-	136,447
-	-	-	-	-	93,386
-	-	-	-	-	6,538
-	-	-	-	-	33,270
<u>136,912</u>	<u>208,941</u>	<u>359,967</u>	<u>-</u>	<u>-</u>	<u>712,574</u>
136,912	208,941	359,967	-	-	982,215
-	-	-	69,551	55,598	125,149
<u>136,956</u>	<u>440,256</u>	<u>359,967</u>	<u>74,351</u>	<u>55,598</u>	<u>1,345,583</u>
(132,735)	83,402	(246,325)	(72,489)	48,990	(217,036)
192,296	-	-	70,000	-	385,519
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,000)</u>
192,296	-	-	70,000	-	355,519
59,561	83,402	(246,325)	(2,489)	48,990	138,483
<u>380,925</u>	<u>370</u>	<u>179,733</u>	<u>271,650</u>	<u>281,938</u>	<u>1,633,796</u>
<u>\$ 440,486</u>	<u>\$ 83,772</u>	<u>\$ (66,592)</u>	<u>\$ 269,161</u>	<u>\$ 330,928</u>	<u>\$ 1,772,279</u>

June 4, 2004

Mayor & Members of City Council
City of Chelsea
305 S. Main Street, Suite 100
Chelsea, MI 48118

Dear Mayor and Council Members:

We have recently completed our audit of the financial statements of the City of Chelsea for the year ended February 29, 2004. As part of our audit, and in addition to our audit report, we have the following comments and recommendations for your consideration.

Reportable Condition

In planning and performing our audit of the financial statements for the City for the year ended February 29, 2004, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted a matter involving the internal control and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matter noted is one that came to our attention and had our procedures in internal control related matters been more extensive, other matters may have been noted.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.

We noted that the person responsible for check preparation, posting of journal entries, and preparation of bank reconciliation, also has access to the signature plate. To strengthen the City's internal control structure, the City should consider eliminating the availability of the signature plate to this individual.

Accounting and Record Keeping

Cash and Investments

Although bank reconciliations are prepared on a timely basis, they are currently not being reviewed by someone other than the preparer. These cash and investment account reconciliations should be reviewed in order to strengthen the City's internal control structure.

The City does not currently have a policy in place for wire transfer or other ACH transactions as required. The City should document a policy regarding the use of, and restrictions on, ACH transaction. We would be happy to assist the City by providing an example policy.

Accounts Receivable and Customer Billings

The total amounts from the billing register were not able to be agreed to the general ledger for the month of November, as the detailed billing register was printed on a date different from the date recorded in the general ledger. The same item occurred when trying to agree utility deposits support to the general ledger for year-end. The City should consider developing a procedure which allows for the consistent reporting of this information in order to alleviate the time to reconcile the registers with the ledgers.

Accrued and Other Liabilities

The City currently has a liability recorded relating to the performance of various remediation and maintenance activities at a landfill site. The liability is estimated at \$60,000 per year, and is estimated to take place over the next 20 years. We recommend the City review this accrual on an annual basis and adjust if necessary.

The City should review covenants on an annual basis related to revenue bonds and the drinking water revolving fund bonds. This would include a review of the rate structure, perhaps during the budget process, to ensure covenant compliance as well as compliance with all State regulations.

Property Taxes

As mentioned in the prior year, during the year ended February 28, 2004, the property tax levy has been reduced in the Unlimited Tax G.O. Bond Debt Service Fund from approximately \$115,000 in 2002 to \$36,000 in the current year. This decision was made to utilize the fund balance that had built over the last few years. We encourage the City to continue to monitor the revenues and the fund balance to make sure that an adequate levy is raised to fully retire the debt. Current year ending fund balance was approximately \$129,000.

Downtown Development Authority

With the changes taking place during the conversion from a Village to a City, including the changing of the fiscal year end, the Authority should consider whether to maintain its February fiscal year, or move to a June year end as well. In addition, this would perhaps be an opportune time for the Authority to review the plan document, including revenue sources, to ensure that there are projects identified for future tax collections.

Accounting Issues

We noted the following areas that may need some attention during the next fiscal year:

Cash and investments

The City has a bank account which is stated at a higher amount at the bank than on the general ledger. The account should be reconciled and adjusted as necessary.

Budgeting

Currently, the City records property tax refunds as an offset to current year property tax revenues, therefore the budgeted amounts for the property tax revenues are higher than the actual amounts at the end of the year. The City should consider treating significant tax refunds as an expense or amending the budget for tax revenues to reflect these refunds. The former would allow the City to review annual financial statements for actual anticipated receipts.

Purchase Orders

The City's current procedures for purchase orders are they are not utilized unless they are requested by the vendors. The City should consider reviewing these procedures and implement any changes that the City feels would strengthen their control structure.

Government Accounting Standards Board Statement 34

Governmental Accounting Standards Board (GASB) Statement 34 is now here! You will notice a different look to the audited financial statements this year. Although there are many differences with this new reporting model, the major additions are as follows:

- Management Discussion and Analysis: Management is now required to give an overview of the City's overall financial position and results of operations.
- Government-wide Financial Statements: The statements now adjust the traditional fund-based statements into a combined, full-accrual format. This allows a financial statement reader to see the City's financial position from a current and longer term perspective including its capital assets and long term debt.
- Budget Comparison: A financial statement reader will now be able to not only view the actual revenue and expenditures of the City as compared to the current budget, but also as compared to the original adopted budget.

The GASB believes that this new model will provide a more complete picture of the financial position of the City. We would be happy to schedule a time to provide a more detailed overview about this new reporting model so that you can obtain the greatest user benefit from it.

Revenue Sharing

As you are aware, revenue sharing payments for the State's fiscal year ended September 30, 2003 were reduced by 3.5 percent through a December 2002 Executive Order. The budget for the State's fiscal year ended September 30, 2004 includes an additional 3 percent reduction in revenue sharing payments from the estimated payments for the State's 2003 fiscal year. These cuts are compounded by reductions that result when sales tax collections are less than what is included in the State's projections. In December 2003, the Governor issued an executive order reducing revenue sharing for the State's fiscal year ended September 30, 2004 an additional 5 percent.

Mayor & Members of City Council
City of Chelsea

June 4, 2004

In February 2004, the Governor introduced her budget for the State's fiscal year ended September 30, 2005. For cities, villages and townships, the Governor's budget proposal is to keep revenue sharing levels for the September 30, 2005 fiscal year end at the September 30, 2004 fiscal year end levels. However, the proposal eliminates statutory revenue sharing for counties. There is considerable discussion in Lansing about further reductions to state shared revenue from the Governor's budget proposal for fiscal year ended September 30, 2005.

With these major changes in revenue sharing occurring, we realize that the City is regularly seeking information on projected future revenue sharing payments. To assist the City in projecting state shared revenue payments, the Michigan Department of Treasury website is located at <http://www.treas.state.mi.us/apps/findrevshareinfo.asp>.

Municipal Finance Act - Reminder

The Municipal Finance Act was amended during 2001. Beginning after March 2002, communities and authorities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. The filing will serve as a pre-approval for debt issuances. The current filing is due within six months of the City's year end (August 31, 2004) and is good through the extended due date of the financial statement filings. The Downtown Development Authority should file as well with the same due dates.

Funding of Post-Employment Benefit Obligations

The Governmental Accounting Standards Board recently issued an exposure draft addressing the accounting for retiree health care. As you know, the promise to provide health care to retirees is very similar to the promise to provide an annual pension check. As a result, GASB is proposing changes that would result in the City having an actuarial valuation to define the liability and the liability would need to be disclosed in the financial statements. In addition, the City's funding status, or the progress it has made in accumulating assets to pay for this liability would also be disclosed. Lastly, the City would be required to make an annual contribution equal to the amount that the actuary deems necessary to fund the liability over a 30-year period. While this change is still in the draft phase, it is expected that it will be adopted in which case you will need to keep this in mind for long-range planning. These changes are expected to be effective 2008.


We would like to thank the entire City staff for the cooperation we received in completing this year's audit. Please contact us if you have any questions or comments related to our suggestions, or if we can be of any help in their implementation.

Very truly yours,

PLANTE & MORAN, PLLC



David H. Helisek



Martin J. Olejnik

plante
moran